

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 /094 W

----- 129809

R 061700Z JAN 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 6576

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

LIMITED OFFICIAL USE SECTION 1 OF 2 PARIS 0289

PASS TREASURY, FEDERAL RESERVE AND COMMERCE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: UPDATED SHORT-TERM FORECAST OF FRENCH ECONOMY

REFTEL: PARIS 26208

1. SUMMARY: RECENT GIP DATA IN 1963 PRICES FOR 2ND
QTR 75 ENABLES REVISION REFTEL FORECAST. DATA RELEASED
BY INSEE DEC 16 MUST BE TAKEN WITH MORE THAN JUST A
PINCH OF SALT. INSEE UNDER PRESSURE TO SHOW FAVORABLE
DEVELOPMENTS AND DATA STRONGLY SUGGESTS COMPLIANCE IN
THIS RESPECT. BROAD OUTLINES OF FORECAST PREPARED
LAST OCTOBER STILL VALID. STILL NO SIGNS OF A STRONG
UPTURN. CHANGES IN STOCK REMAIN MAJOR ELEMENT OF
GROSS INTERNAL PRODUCT (GIP) GROWTH IN REAL TERMS.
PRIVATE CONSUMPTION PROBABLY WILL EXPERIENCE SLOW
GROWTH AND RATE OF INVESTMENT GROWTH ON YEAR TO YEAR
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BASIS PROBABLY WILL REMAIN NEGATIVE OR VERY SLUGGISH

UNTIL SECOND HALF OF 1976. IN SHORT, FRENCH ECONOMY
UNLIKELY TO REGAIN FIRST HALF 1974 LEVEL AT ANNUAL
RATE IN REAL TERMS UNTIL THE SECOND HALF OF 1976,
THEREBY COMPLETING TWO-YEAR CYCLE THAT BEGAN WITH
SHARP RECESSION IN SECOND HALF 1974. END SUMMARY

2. INSEE RELEASED 2ND QUARTER 1975 GIP DATA IN 1963
PRICES ON DEC 16. CONVERSION OF THESE FIGURES INTO
CURRENT PRICES BY PROJECTING THE GIP DEFLATOR FOR EACH
CATEGORY BY QUARTER PRODUCES ANOMOLIES AND UNREALISTIC
FIGURES. INSEE SOURCES REPORT HEAVY PRESSURES TO SHOW
GOOD RESULTS. FOR EXAMPLE THE SECOND QUARTER 1975
FIGURE FOR GROSS FIXED INVESTMENT IMPLIES A MINUS
INVESTMENT GROWTH RATE FOR 1975 ROUGHLY HALF THE MINUS
8 PERCENT FIGURE THAT INSEE OFFICIALS PRIVATELY PROJECT
AS "ALMOST CERTAIN". THUS WE HAVE ADJUSTED THE 2ND
QUARTER FIGURES SOMEWHAT AND THEY SHOULD BE VIEWED AS
PROVISIONAL FIGURES. 2ND QTR 1975 DATA IN CURRENT
PRICES WILL BE PUBLISHED LATER. THIS UNUSUAL DELAY
COULD BE ANOTHER INDICATION OF PRESSURE TO SHOW ECONOMIC
DEVELOPMENTS IN STATISTICALLY THE BEST POSSIBLE LIGHT.

3. PROJECTIONS FOR 1975 (75-I ACTUAL; 75-II
PROVISIONAL, 75-III AND IV ESTIMATED)

FRENCH DEMAND AND OUTPUT: 1975
IN BILLIONS OF FRANCS (1963 PRICES)
QUARTERLY FIGURES SEASONALLY ADJUSTED AT ANNUAL RATES

	1975					
	75-I	75-II	75-III	75-IV	YEAR	
PRIVATE						
CONSUMPTION		430.1	433.9	437.9	442.3	436.0
PUBLIC						
CONSUMPTION		24.9	24.7	25.0	26.1	25.2
GROSS FIXED						
INVESTMENT		184.1	181.8	182.3	184.3	183.1
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FINAL DEMAND		639.1	640.4	645.2	652.7	644.3
CHANGE IN STOCKS		-24.5	-19.7	-11.4	-3.0	-14.6
EXPORTS AND BAL.						
ON SERVICES		126.3	125.3	124.4	126.1	125.5

IMPORTS 122.5 119.3 123.0 127.0 122.9

G.I.P. 618.4 626.7 635.2 648.8 632.3

1975 REAL QUARTERLY CHANGES IN PERCENT, SEASONALLY ADJUSTED
AT ANNUAL RATES

75-I 75-II 75-III 75-IV 1975
YEAR

PRIVATE

CONSUMPTION 2.8 3.5 3.7 4.0 2.2

PUBLIC

CONSUMPTION 3.2
-3.2 4.9 17.6 2.0

GROSS FIXED

INVESTMENT -13.0 -5.0
1.1 3.1 -4.3

FINAL DEMAND -1.9 0.8 3.0 4.6 -0.1

EXPORTS AND BAL.

ON SERVICES -12.3 -3.2 -2.9 5.5 -5.4

IMPORTS -27.9 -10.4 12.4 13.0 -14.0

G.I.P.M -10.3 5.4 5.4 8.6 -2.7

NOTE: IF THE PROVISIONAL 2ND QTR GROSS FIXED
INVESTMENT FIGURE PROVES OVERLY OPTIMISTIC, AS DISCUSSED
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IN PARA 2 ABOVE, THE GROSS INTERNAL PRODUCT RESULTS
FOR 1975 WILL BE CLOSER TO OUR OCTOBER PROJECTION OF
MINUS 3.4 PERCENT THAN TO THE MINUS 2.7 PERCENT SHOWN
ABOVE. IN ANY CASE, IT IS EVIDENT THAT INSEE IS USING
GROSS FIXED INVESTMENT AS THE VARIABLE IN ORDER TO
YIELD AT LEAST STATISTICALLY BETTER NEWS. GROSS FIXED
INVESTMENT IS ESTIMATED BY SAMPLING TECHNIQUES AS GOF
POLICY IS TO STIMULATE INVESTMENT IT MAY WELL BE THAT
INSEE USED THE BEST POSSIBLE INTERPRETATION OF GROSS
FIXED INVESTMENT FOR ITS 1975 2ND QTR FIGURES.

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INFO AMEMBASSY BONN

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4. SHORT-TERM FORECAST FOR 1976

FRENCH DEMAND AND OUTPUT: 1976

IN BILLIONS OF FRANCS (1963 PRICES)

QUARTERLY FIGURES SEASONALLY ADJUSTED AT ANNUAL RATES

1976

76-I 76-II 76-III 76-IV YEAR

PRIVATE

CONSUMPTION	444.5	445.6	447.0	448.9	446.5
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PUBLIC

CONSUMPTION	25.5	25.6	25.7	26.0	25.7
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GROSS FIXED

INVESTMENT	184.7	185.4	187.4	190.1	186.9
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FINAL DEMAND 654.7 656.6 660.1 665.0 659.1

CHANGE IN STOCKS 0 2.3 5.8 6.9 3.7

EXPORTS AND BAL.

ON SERVICES 128.7 131.3 132.9 134.6 131.9

IMPORTS 130.6 134.9 140.6 147.0 138.3

G.I.P. 652.8 655.3 658.2 659.5 656.4

1976 REAL QUARTERLY CHANGES IN PERCENT, SEASONALLY ADJUSTED
AT ANNUAL RATES

	1976				
	76-I	76-II	76-III	76-IV	YEAR
PRIVATE					
CONSUMPTION	2.0	1.0	1.3	1.7	2.4
PUBLIC					
CONSUMPTION	-9.2	1.6	1.6	4.7	2.0
GROSS FIXED					
INVESTMENT	0.8	1.5	4.4	5.8	2.1
FINAL DEMAND	1.2	1.2	2.1	3.0	2.3
EXPORTS AND BAL.					
ON SERVICES	8.2	8.1	4.9	5.1	5.1
IMPORTS	11.3	13.2	16.8	18.1	12.5
G.I.P.	2.5	1.5	1.8	0.8	3.8

NOTE: NO CHANGE IN CONSUMER PRICES FORECAST IN REFTTEL.

5. BALANCE OF PAYMENTS. IN 1963 PRICES OUR 1975
ESTIMATE IS A GOODS AND SERVICES SURPLUS OF FRANCS
2.6 BILLION, AND FRANCS 5 BILLION IN CURRENT PRICES.
NOTE: 1974 GDP IN CURRENT PRICES WAS 1.8 OF THAT IN
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1963 PRICES. ASSUMING 1975 DEFLATOR AT 1.93, 1976
WOULD BE 2.05. THUS, 1976 FORECAST IS FOR A GOODS AND
SERVICES DEFICIT OF FRANCS 6.4 BILLION IN 1963 PRICES
AND FRANCS 13.1 BILLION IN CURRENT PRICES. PROJECTING
TRA SFERS, PRIVATE AND OFFICIAL IN CURRENT PRICES AT

MINUS 7 BILLION IN 1975 AND MINUS 9 BILLION IN 1976, THE CURRENT ACCOUNT BALANCE IN CURRENT PRICES FOR 1975 WOULD BE MINUS FRANCS 2 BILLION AND FOR 1976 MINUS FRANCS 22.1 BILLION.

6. THE DISCREPANCY BETWEEN OUR BALANCE OF PAYMENTS FORECAST AND THAT OF THE OECD (SEE PARIS 33620) REQUIRES COMMENT. LIKE THE GOF WE DISAGREE WITH OECD PROJECTIONS OF THE LEVEL OF BOTH FRENCH EXPORTS AND IMPORTS IN 1976 AND THE IMPLICIT LEVEL OF INTERNATIONAL EC DEMAND. THIS ACCOUNTS FOR THE DIFFERENCES IN THE LEVEL OF FRENCH FOREIGN TRADE AS WELL AS FOR SOME OF THE DIFFERENCES IN THE TRADE BALANCES BETWEEN THE OECD FORECAST AND OURS. HOWEVER, THERE IS AN EQUALLY SIGNIFICANT DIFFERENCE RELATED PRIMARILY TO CHANGE IN THE INTERNAL DYNAMICS OF THE FRENCH ECONOMY AND THE EXTERNAL SECTOR WHICH EXPLAINS MOST OF THE TRADE BALANCE DIFFERENCES BETWEEN THE TWO FORECASTS. OECD EVIDENTLY FORECAST THE FRENCH EXTERNAL SECTOR MAINLY AS A FUNCTION OF DOMESTIC DEMAND FOR IMPORTS AND EXTERNAL DEMAND, PARTICULARLY EC, FOR EXPORTS. IN OUR VIEW, THIS VIRTUALLY IGNORES THE KEY ROLE OF INVENTORY CHANGES ON THE EXTERNAL SECTOR. BOTH WITHIN THE FRENCH ECONOMY AND WITHIN THE EC AS A WHOLE. PRODUCER INVENTORY IN FRANCE IS CURRENTLY AT AN ALL TIME POST-WAR LOW. THUS, THE RANGE OF GOF, OECD, OR OUR 1976 FORECAST OF FINAL DEMAND SEEMS CERTAIN TO CAUSE A SHARP INCREASE IN FRENCH IMPORTS AS THEY ACCOUNT FOR A VERY SIGNIFICANT PERCENTAGE OF FRENCH PRODUCER INVENTORY. MOREOVER, PRODUCER INVENTORY IS LOW THROUGHOUT THE EC. A SIGNIFICANT PORTION OF FRENCH EXPORTS TO THE EC ARE THE COUNTERPART OF EC PRODUCER INVENTORY, E.G. SEMI-PROCESSED GOODS AND

COMPONENTS. THUS, THE REBUILDING OF PRODUCER LIMITED OFFICIAL USE

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STOCKS IN THE EC WHICH SEEMS INEVITABLE UNDER ANY OF THE CURRENT FORECASTS FOR FINAL DEMAND IN 1976 WILL AFFECT BOTH FRENCH EXPORTS AND IMPORTS, BUT IT WILL HAVE A BIGGER EFFECT ON IMPORTS THAN ON EXPORTS. THE OECD CALCULATIONS SEEM TO HAVE IGNORED EXTERNAL SECTOR LEADS AND LAGS, WHICH MAINLY OWING TO THE IMPORTANCE OF FRENCH TRADE WITH WEST GERMANY AND BENELUX, TENDED TO FAVOR FRANCE IN 1975, AS EXPORTS UNDER HEAVY INDUSTRY CONTRACTUAL ARRANGEMENTS WITH THESE TRADING PARTNERS HELD UP FAIRLY WELL THROUGH 75-III WHILE FRENCH IMPORTS BEGAN DECLINING SHARPLY IN RESPONSE TO THE DECLINE IN DOMESTIC DEMAND IN 1974-

888. THIS SITUATION SEEMS LIKELY TO BE REVERSED IN 1976, ALTHOUGH A QUICKER THAN EXPECTED REVIVAL OF WEST GERMAN HEAVY INDUSTRIAL EXPORTS COULD ALTER THIS PATTERN AS FRENCH INDUSTRY IS A MAJOR SOURCE OF WEST GERMAN IMPORTS OF SEMI-FINISHED GOODS AND COMPONENTS. THE SAME GENERAL PATTERN HOLDS FOR BENELUX. CONSEQUENTLY, FRENCH IMPORT GROWTH IS LIKELY TO EXCEED EXPORT GROWTH AT LEAST UNTIL ECONOMIC RECOVERY WITHIN THE EC AS A WHOLE IS WELL UNDERWAY. SINCE INVENTORY REBUILDING WILL BE A MAJOR SOURCE OF GROSS INTERNAL PRODUCT GROWTH IN FRANCE DURING MOST OF 1976, WE BELIEVE THAT IT WILL HAVE A STRONG EFFECT ON THE FRENCH TRADE AND CURRENT ACCOUNT. MOREOVER, IT ALSO WILL EXACERBATE ADVERSE CYCLICAL LEADS AND LAGS IN THE FRENCH EXTERNAL SECTOR, SIMPLY BECAUSE PRODUCER INVENTORY MUST BE IMPORTED BEFORE EXPORTS CAN RISE AS THERE IS VIRTUALLY NO STOCK LEFT TO MEET ADDITIONAL ORDERS. FOR ALL THESE REASONS OUR PROJECTIONS OF THE FRENCH EXTERNAL SECTOR DIFFER SUBSTANTIALLY FROM THOSE OF THE OECD, EVEN THOUGH THE TWO FORECASTS OF FINAL DEMAND IN 1976 ARE REASONABLY CLOSE.

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